Latrobe Magnesium

2012 Annual Report

Latrobe Magnesium Limited and its Controlled Entities

ABN 52 009 173 611

INDEX

COMPANY DIRECTORY

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Kevin Torpey
Philip Bruce
John Lee

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ASX CODE: LMG

REVIEW OF OPERATIONS

LATROBE MAGNESIUM PROJECT

1. Overview

During the year, the Company has made significant progress with its Latrobe Magnesium Project in the following areas:

i. the Company completed its prefeasibility study on its Latrobe magnesium project;

ii. the Company applied jointly with Ecoengineers Pty Ltd ("Ecoengineers") for an International Patent for its hydomet process;

iii. the Company entered into confidentiality agreements with RWE Power AG ("RWE") and Holcim Support Group Ltd ("Holcim"); and

iv. the Company entered into a cooperation agreement with Beijing Tieforce Engineering Co. Ltd ("BTE").

The Company plans to use its Hydromet process together with the proven thermal reduction process to extract magnesium and char and also to make a cementitious material from the Latrobe Valley brown coal fly ash.

2. Magnesium Markets

The primary world production of magnesium in 2011 increased to approximately 809,000 tonnes. China's estimated production for 2011 was some 660,000 tonnes and represents in excess of 80% of the world's production. Some 60% of China's production is used locally. In 2012, there were two new entries to the magnesium market from Malaysia and South Korea.

Australian and New Zealand consumption of magnesium has been recorded in the range between 10,000 tonnes to 12,000 tonnes per annum. All this magnesium is imported.

The price of magnesium remained stable during the year ended 30 June 2012.

		30-Jun-12	30-Jun-11
FOB China	US$ per tonne	3,150	3,300

In September 2012, the price of magnesium in China is approximately US$3,300 per tonne. Owing to anti-dumping duties, the price in the United States is US$4,500 per tonne.

In China, the operating costs of production increased by 10% during the year to approximately US$1.10 per lb. Consequently, there was a migration of production from the older established states in the east to those states in the west with cheaper electricity, coke gas and labour costs.

Magnesium is one of the twelve nominated important metals in China and therefore, Chinese producers have to pay a VAT of 17% and also a 10% export tax on magnesium metal.

3. Hydromet Process

On 26 August 2011, the Company and Ecoengineers jointly filed a worldwide patent application for this process. The initial application was made by Ecoengineers for Australia in August 2009. LMG has the worldwide marketing rights for the process.

The hydromet process is used to reduce the sulphur, iron and silica contained in the fly ash to reasonable levels so that the beneficiated material can be used as a feed stock for the thermal reduction process.

4. Thermal Reduction Process

The use of the thermal reduction process for the production of magnesium from the Latrobe Valley brown coal fly ash is suitable for the following reasons:

- It is a simplified proven technology responsible for the majority of the World's magnesium production.
- It can produce small quantities of magnesium economically.
- The production is capable of being expanded on a modular basis.

REVIEW OF OPERATIONS

- A lower capital cost when compared to electrolytic plants.
- The construction period for a plant is 12 months.
- The scalability reduces the overall risks of the project.
- The production can be initially tailored to Australian demand requirements.

The process is simple, well proven and robust and therefore does not require complex solutions in the production process and does not consume as much electricity when compared to an electrolytic process.

The retort work conducted during the period was able to replicate its magnesium metal recovery rates of up to 94%. The commercial recovery rate traditionally achieved by the thermal reduction process, using dolime as a source material, is in the range between 73% and 78%.

In addition, some of the retort work was conducted without using Calcium Fluoride, CaF_2, as a flux in the retort. The results of this work proved that the magnesium recovery rate from brown coal fly ash was not affected by the removal of the flux. The cost of CaF_2 usually approximates up to 4% of total magnesium production costs - a significant saving in the process.

5. Pre-feasibility Study Results

LMG with the assistance of GHD Pty Ltd (“GHD”) completed its prefeasibility study and released it on 13 October 2011. With the confidence gained from the study results, the LMG Board resolved that LMG should progress towards a bankable feasibility study. GHD recommended that LMG should first undertake an adjustment study to refine the capital and operating costs data supplied in the BTE report and conduct further test work to confirm design and feedstock assumptions used in the study.

As a result of confirmatory and optimisation work over the past six months, LMG has substantially reduced the capital costs of its first commercial magnesium plant in Victoria’s Latrobe Valley from $100 million, as reported in the prefeasibility study, to between $35 and $40 million. This work has been responsible for the reduction in the capital cost estimate of its 10,000 tonne plant from $100 million to between $65 million to $70 million. The subsequent reduction in size of its first commercial plant from 10,000 tonnes to 5,000 tonnes of magnesium metal per annum as a result of operating efficiencies achieved further reduces the cost.

The test work has also indicated a decrease in plant operating costs by about 10%.

The highlights of this test work completed to date, which have led to reduced capital and operating costs may be summarised as follows:

- reduced size of tanks used in the hydromet circuit due to shorter reaction time of chemicals;
- less reagents used in the hydromet process;
- increase in the removal of iron, up from 55% to 74%, producing savings in reductant costs;
- improved MgO content achieved in retort feed stock increasing productivity; and
- reduced size of the thermal reduction process.

The full results of the adjustment study will be announced upon its completion later this year.

6. Cementitious Material

Through the use of its hydromet process and the introduction of various additives into the retort feedstock, the Company has been able to create a new product which it believes will be suitable to be used in cement production. The Company is able to create a new product that has similar chemical characteristics to Portland cement.

During the year the Company appointed the consultants, Engineering Material Solutions Pty Ltd to conduct a market study on the material and also to test the strength and setting times of the material against known Australian Standards. This work is expected to be completed in the second quarter of 2013.

7. RWE Agreement

On 6 September 2011, LMG announced the signing of a confidentiality agreement with RWE to investigate whether its Hydromet Process is adaptable and suitability to process their brown coal fly ash in order to produce magnesium metal and other products.

REVIEW OF OPERATIONS

LMG has identified one RWE Power brown coal mine near Cologne that it believes has the required MgO grade. The chemistry of the fly ash is comparable to the Latrobe Valley fly ash and better in some instances. This one mine produces some 100 million wet tonnes of coal per annum. In comparison, the three mines in the Latrobe Valley produce some 80 million wet tonnes.

0n 5 July 2012, LMG announced that it had successful processed the RWE brown coal fly ash using its hydromet process and achieved reductions in both sulphur and iron to acceptable levels for the beneficiated fly ash to produce magnesium using the thermal reduction process.

Whilst the reduction work has not yet been completed, LMG believes that as the RWE beneficiated fly ash is similar in chemical composition to recent Latrobe Valley fly ash processed using the thermal reduction method there should not be any difficulties.

8. Beijing Tieforce Agreement

On 20 April 2012, LMG signed a Cooperation Agreement with BTE to assist with developing its magnesium smelter project with an annual capacity of 10,000 tonnes in the Latrobe Valley. The size of the plant has subsequently been reduced to 5,000 tonnes per annum in the first stage.

BTE has secured the approval of the Chinese Magnesium Association to enter into this agreement and provide the advice as detailed in the agreement.

BTE have considerable experience in the construction of thermal magnesium plants in China. They designed and constructed the 15,000 tonne per annum Perak magnesium smelter which was fully commissioned last year in Malaysia. This is the only plant built in the western world in the last 15 years.

BTE worked together with GHD, Clark & Marron and LMG in the completion of its prefeasibility study last October.

Under the agreement, LMG will make available a large enough sample for BTE to test LMG's beneficiated fly ash in both a laboratory and commercial retort facility to demonstrate the main technical requirements and performance indexes for the construction of the new magnesium plant.

Both parties agree that the reduction retort process is the highest cost process step in the thermal reduction process. BTE and LMG have already proposed several improvements in the existing process in order to achieve a high level of automation. The introduction of improved technology, instrumentation, mechanisation and automation will be important components of the plant's bankable feasibility study.

ERRIDA CREEK EXPLORATION PROJECT

On 18 August 2011, LMG finalised an option agreement to acquire a 100% interest in a Rare Earth Project at Errida Creek in the Gascoyne region of Western Australia.

As the Native Title Agreements were not executed during the year, the Company was unable to conduct any exploration activities. The Company decided not to take up its second year option and the option agreement has been terminated on 5 September 2012.

CORPORATE GOVERNANCE STATEMENT

OVERVIEW

The Company and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance and aim to comply with the Corporate Governance Principals and Recommendations set by the ASX Corporate Governance Council.

However, given the current size of both the Company's operations and the Board of Directors, it is not appropriate, cost effective or practical to comply fully with those principles and recommendations. Where a recommendation has not been followed, this fact has been disclosed together with the reasons for the departure.

Consistent with the ASX recommendations, the Company's corporate governance practices are regularly reviewed.

Principle 1 – Lay solid foundations for management and oversight

The respective roles and responsibilities of the Board and management are set out below.

Board Responsibilities

The Board of Directors is accountable to shareholders for the performance of the Group. In carrying out its responsibilities, the Board undertakes to serve the interest of shareholders honestly, fairly and diligently. The Board's responsibilities are reviewed annually to determine whether any changes are necessary or desirable. The responsibilities of the Board include:

- reporting to shareholders and the market;
- ensuring adequate risk management processes exist and are complied with;
- reviewing internal controls and external audit reports;
- ensuring regulatory compliance;
- monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company auditors;
- reviewing the performance of senior management;
- monitoring the Board composition, Director selection and Board processes and performance;
- validating and approving corporate strategy;
- reviewing the assumptions and rationale underlying the annual plans; and
- authorising and monitoring major investment and strategic commitments.

Directors Education

The Company issues a formal letter of appointment for new Directors setting out the terms and conditions relevant to that appointment and the expectations of the role of the director. The Company also provides a formal induction process which provides key information on the nature of the business and its operations.

Continuing education is provided via the regular Board updates provided by the Chief Executive.

Role of Chairman and Chief Executive Officer (CEO)

The Chairman is currently carrying out the role of the CEO and is responsible for leading the Board, ensuring that Board activities are organised and efficiently conducted and for ensuring the Directors are properly briefed for meetings. The Chairman is also responsible for implementing the Group's strategies and Board policies.

A formal charter is in place which lays out the duties and responsibilities of the CEO. This charter also requires that the responsibilities and accountabilities of both the Board of Directors and the CEO are clearly defined. The assessment and monitoring of the CEO is the chief responsibility of the Board. Performance is assessed against pre-determined objectives on a regular basis.

The Chairman's other responsibilities include:

- Ensuring that general meetings are conducted efficiently and shareholders have adequate opportunity to air their views and obtain answers to their queries.
- Present the view of the Board formally.

Evaluating Performance of Senior Executives / Consultants

The Board evaluates the performance of the senior executives and consultants and discharges its responsibilities in relation to remuneration of executives. In meeting this purpose, the Board's duties include (among others):

- regularly reviewing the executive remuneration policy of the Company to ensure that it is clearly linked to the performance of the Company and it motivates senior executives to pursue both short term deliverables and long term growth;

CORPORATE GOVERNANCE STATEMENT

- reviewing all aspects of the remuneration (including base pay, incentive payments, equity awards, retirement rights and service contracts) and any proposed change to the terms of employment of the CEO and his or her direct reports;
- developing and reviewing appropriate succession plans for key executives; and
- reviewing the recruitment, retention and termination policies and procedures for senior executives.

The Board has available to it the services of independent professional advisers to assist in the search for high calibre people at all levels and to ensure that the terms and conditions offered by the Company are competitive with those offered by comparable companies.

Principle 2 – Structure the Board to add value

The composition of the Board is structured to efficiently discharge its responsibilities and duties.

Composition of the Board

The Board of Directors is comprised of a Chairman and three non-executive Directors, all of whom have a broad range of skills and experience.

There are two independent Directors and the Chairman undertakes the role of Chief Executive Officer.

In determining independence the Board has regard to the guidelines of Directors' independence in the ASX Corporate Governance Council and Best Practice Recommendations and other best practice guidelines.

Each Director's independent status is regularly assessed by the Board.

The Company does not comply with recommendations 2.1 that a majority of the Board be independent directors; 2.2 that the chair should be an independent director; 2.3 that the role of the chair and CEO should not be exercised by the same individual; and 2.4 that the Board should establish a nomination committee. The Company complies with recommendations 2.5 and 2.6.

At this stage of the Company's development, the Board considers it is neither appropriate nor cost effective for there to be a majority of independent Directors, an independent Chairman and a separate CEO. This matter continues to be under review and as circumstances allow, consideration will be given at the appropriate time to move to adopting the ASX Corporate Governance Guidelines.

The Board considers that its composition provides for the timely and efficient decision making required for the Company in its current circumstances. The Board's size and composition is subject to limits imposed by the Company's constitution which provides for a minimum of three Directors and a maximum of nine.

Details of the members of the Board, their experience, expertise and qualifications are set out in the Directors Report on Page 14 to 15.

The position/status and term in office of each Director at the date of this report is as follows:

Name of Director	Position/Status	Term in Office	
		Years	Months
David Paterson	Chairman/ Executive – Non Independent	10	1
Kevin Torpey	Non-Executive– Non-Independent	10	5
Philip Bruce	Non-Executive– Independent	9	1
John Lee	Non-Executive– Independent	1	6

The Board held 4 scheduled meetings last year together with a number of ad hoc meetings. The Directors attendance is disclosed on Page 16 of the Director's Report.

Access to independent professional advice

All Directors are required to bring an independent judgement to bear on Board decisions. To facilitate this, each Director has the right of access to all relevant Company information and to the Company's executives. The Directors also have access to external resources as required to fully discharge their obligations as Directors of the Company. The use of this resource is co-ordinated through the Chairman of the Board.

Nomination committee

The Board has not yet formed a separate nominations committee and that all matters that would normally be the responsibility of a nominations committee are dealt with by the full Board of Directors.

The Board reviews its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reasons, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience.

CORPORATE GOVERNANCE STATEMENT

External advisors may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

For Directors retiring by rotation, the Board assesses that director before recommending re-election.

The ASX Corporate Governance recommends the appointment of a Nomination Committee for prospective Board appointments. The Board considers the Company and the Board are currently not of sufficient size to justify the establishment of a separate Nomination Committee.

Board performance evaluation

The Company has processes in place to review the performance of the Board and its committees and individual Directors. Each year the Board of Directors gives consideration to corporate governance matters, including the relevance of existing committees and to reviewing its own and individual Directors' performance. The Chairman is responsible for monitoring the contribution of individual Directors and consulting with them in any areas of improvement.

Principle 3 – Promote ethical and responsible decision making

The Company actively promotes ethical and responsible decision making.

Code of conduct

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance Practices and ethical conduct by all Directors and employees of the Group.

The Company has established a code of conduct applicable to all Directors and employees. The requirement to comply with the code is mandatory and is communicated to all employees. The code sets out standards of conduct, behaviour and professionalism.

The shareholder communications strategy, the securities trading policy, the continuous disclosure policy collectively form a solid ethical foundation for the Company's ethical practices.

Approach to diversity

The Company is yet to establish a diversity policy although it recognizes the benefits of diversity at boards in senior management and within the organisation generally and recognizes the organisational strengths, deeper problem solving ability and opportunity for innovation that diversity brings to an organisation.

The Company does not currently comply with recommendation 3.2 which requires ASX listed entities to establish a diversity policy which includes a requirement that:

- the Board establish measurable objectives for achieving gender diversity; and
- the Board assess annually both the measurable objectives for achieving gender diversity and the process in achieving them.

The implementation of an appropriate diversity policy to reflect the circumstances of the Company and the industry in which the Company operates is currently under review with this task being considered by the full Board.

While no formal policy is currently in place the Company is committed to providing an environment in which all employees are treated with fairness, respect and have equal access to employment opportunities at work.

Currently, female employees are not represented in the Company's workforce, in senior executive positions and as members of the Board.

Policy on dealing in Company securities

The Company has adopted a policy on how Directors, key management personnel, contractors and all other employees can deal in the securities of the Company.

This policy aims to ensure that the reputation of the Company is not adversely impacted by perceptions of trading in the Company's securities at inappropriate times or in an inappropriate manner. In addition to the specific prohibition on insider trading, Directors and all other employees must also not deal in the Company's securities during the following closed periods, being the four week period before or 48 hours after:

- the release of the Company's annual results to the ASX
- the release of the Company's half-year results to the ASX
- the release of the Company's quarterly cash flow and activities report to the ASX
- the annual general meeting
- such other periods as advised by the Board of Directors or Chief Executive Officer (such as prior to ASX being advised of a significant matter or event.

CORPORATE GOVERNANCE STATEMENT

Requests to trade during the closed periods may be considered in exceptional circumstances. At all other times Directors, key management personnel and all other employees are not permitted to buy or sell securities in the Company without first obtaining written consent from the Chairman. When the Chairman trades Company securities written approval has to be obtained from an independent Director.

The Company has introduced compliance standards and procedures to ensure that the policy is properly implemented. In addition there is also an internal review mechanism to assess compliance and effectiveness.

A copy of the Company's securities trading policy was lodged with the ASX Company Announcements office on 23 December 2010 and is also posted on the Company's website.

Principle 4 – Safeguard Integrity in financial reporting

The following structure is set up to independently verify and safeguard the integrity of financial reporting.

Audit Committee

The Board has formed a separate Audit Committee. The members of the Audit Committee during the year were:

- John Lee – Chairman
- David Paterson

The structure of the Audit Committee does not comply with recommendation 4.2 which recommends that the Audit Committee consists of only Non-Executive Directors. The committee does have an independent Chairman who is not the Chairman of the Board and is a Non Executive Director. The Board considers that given its current size and structure it is neither appropriate nor cost effective for this recommendation to be adopted in full.

The committee met twice during the year. The Audit Committee has adopted a formal charter which sets out the responsibilities of the Audit Committee.

The responsibilities of the Audit Committee include:

- reviewing the annual and half year financial reports to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- monitoring corporate risk management practices;
- review and approval of the consolidated entity's accounting policies and procedures;
- reviewing external audit plans;
- reviewing the nomination, performance and independence of the external auditors; and
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

The Audit Committee has received confirmation in writing from the Chairman and the Company Secretary that the Company's Financial Report for the financial year ended 30 June 2012 presents a true and fair view in all material respects of the Company's financial position and operational results and is in accordance with relevant accounting standards.

External auditors

The full Board is responsible for the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit. In fulfilling its responsibilities, the Board receives regular reports from management and the external auditors at least once a year, or more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Audit Committee.

The current auditors, Nexia Court & Co were appointed on 30 November 2009. The Australian accounting bodies' statement on professional independence requires mandatory rotation of audit partners for listed companies every five years. Nexia Court & Co confirm that they conform with the requirements of the statement.

Nexia Court & Co are required to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

Principle 5 – Make timely and balanced disclosure

The Company make timely and balanced disclosure of any material matters concerning the Company.

The Company has a written policy on information disclosure that focuses on the continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities.

The Company Secretary in consultation with the Chairman and Directors is responsible for communications with the ASX. He is also responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the general public.

CORPORATE GOVERNANCE STATEMENT

Principle 6 – Respect the rights of shareholders

The Company respects the rights of shareholders and facilitates their effective exercise of those rights.

Communication with shareholders

The Board recognises and respects the rights of our shareholders as the beneficial owners of the Company. In order to facilitate the effective exercise of those rights, the Company follows a communications strategy that aims to empower shareholders by:

- communicating effectively with them;
- providing easy access to balanced and understandable information about the Company; and
- encouraging and facilitating shareholder participation in general meetings.

The Company achieves this through the following avenues:

Regular mailings

The Company provides shareholders with copies of all announcements made to the ASX by mail on request. Copies are also available in its web site or the ASX web site, ensuring that all shareholders are kept informed about the Company.

The Company posts corporate information in the Investor Section of its website at www.latrobemagnesium.com.

Shareholders also have the option of receiving a hard copy of the Annual Report each year.

General meetings

All shareholders are invited to attend the Annual General Meetings which are held in Sydney. The full Board and senior executives are present and available to answer questions from the floor, as are the External Auditor.

Principle 7 – Recognise and manage risk

The Company has established a sound system of risk oversight and management and internal control.

The Board oversees the establishment, implementation and review of the Company's Risk Management System. To ensure it meets its responsibilities, the Board has implemented appropriate systems for identifying, assessing, monitoring and managing material risk throughout the organisation.

The Board identifies potential areas of business risk arising from changes in the financial and economic circumstances of its operating environment. It regularly assesses the Company performance in light of risks identified. It also reviews the effectiveness of the implementation of the Company's risk management and internal control system on a regular basis.

The Board does not employ an internal auditor, although as part of the Company's strategy to implement an integrated framework of control, the Board requests the external auditors review internal control procedures. Recommendations once presented are considered by the Board.

The Board has received written consent from the Chairman and the Company Secretary that the integrity of the financial statements is founded on a sound system of risk management, internal compliance and control system which is operating efficiently in all material respects.

The Board requires the declaration prior to the Directors signing the Company's financial statements.

Principle 8 – Remunerate fairly and responsibly

The Company ensures that the level and composition of remuneration is sufficient and reasonable and that the relationship to performance is clear.

The role of the Remuneration Committee is undertaken by the full Board of Directors. The Board has adopted a formal charter. The main responsibilities of the Board are:

- review and approve the Group's policy for determining executive remuneration and any amendments to that policy;
- review the on-going appropriateness and relevance of the policy;
- consider and make recommendations on the remuneration of executive Directors (including base salary, incentive payments, equity awards and service contracts);
- review and approve the design of all equity based plans;
- review and approve the total proposed payments under each plan; and
- review and approve the remuneration levels for non-executive Directors.

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The Company does not comply with recommendation 8.1 in relation to the composition of the Remuneration Committee in that it does not consist of a majority of independent Directors. The Board considers at this stage of the Company's development it is neither appropriate nor cost effective to adopt the full ASX Corporate Governance guidelines.

Executive Directors and executive remuneration

The Board reviews and approves the policy for determining an executive's remuneration and any amendments to that policy.

Executive remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice, if required.

Remuneration packages include basic salary, superannuation and the rights of participation in the Company's Employee Share Purchase Plan. These are set at levels that are intended to attract and retain executives capable of effectively managing the Company's operations.

Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

Non-executive Directors

Remuneration of Non-Executive Directors is determined by the Board based on relevant comparative independent expert advice and the maximum amount approved by shareholders from time to time. They have the right to participate in the Company's Employee Share Purchase Plan.

Further information on Directors and executive remuneration is included in the remuneration report which forms part of the Directors' report.

DIRECTORS' REPORT

The directors present their report together with the financial report of Latrobe Magnesium Limited ("Company") and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2012 and the auditor's report thereon.

DIRECTORS

The following persons were directors of Latrobe Magnesium Limited during the financial year and up to the date of this report.

D O Paterson (Chairman)
K A Torpey
P F Bruce
J R Lee

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group consisted of:

- advancement of the Latrobe Magnesium Project through its prefeasibility and adjustment studies;
- entering into an agreement with RWE to evaluate their brown coal fly ash; and
- review of potential resource based investment opportunities to enhance shareholders value.

OPERATING RESULTS

The consolidated net loss of the Group after providing for income tax amounted to $1,012,899 compared to a net loss of $606,149 for the previous corresponding period. The increase in loss was mainly due to the costs of the various studies conducted on the Latrobe Magnesium project and the exploration expenses written off.

Further information on review of operations of the Group is shown separately in the Directors' Review of Operations on Page 4 to 6 of this report.

Dividends

The Directors have not recommended the payment of a final dividend.

Significant Changes in the State of Affairs

The significant change in the state of affairs of the Group during the financial year is an increase in the contributed equity of $1,033,986, from $25,438,521 to $26,472,507 as a result of issuing the following fully paid ordinary shares:

		$
September 2011	6,500,000 shares issued at $0.026 to pay option fee for tenement acquisition	169,000
November 2011	17,500,000 shares issued at $0.023 pursuant to a private placement	402,500
December 2011	20,071,105 shares issued at $0.023 pursuant to a share purchase plan	461,636
June 2012	9,000,000 shares issued at $0.005 pursuant to an exercise of share option	45,000
Transaction costs relating to share issues		(44,150)

Net increase in share capital		1,033,986
		========

MATTERS SUBSEQUENT TO BALANCE DATE

In August 2011, the Company secured an option to acquire 100% equity interest in a rare earth project at Errida Creek in Western Australia. As the Native Title Agreements were not executed during the year, the Company was unable to conduct any exploration activities. The Company decided not to take up its second year option and the option agreement has been terminated on 5 September 2012. It has therefore been decided to expense all the costs incurred in relation to this project in the 2012 financial year.

There is no other matter or circumstance that has arisen since 30 June 2012 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2012, of the Group;
(b) the results of those operations; or
(c) the state of affairs, in financial years subsequent to 30 June 2012, of the Group.

On 26 September 2012 the financial report was authorised for issue by a resolution of Directors.

DIRECTORS' REPORT

LIKELY DEVELOPMENTS

Except for information disclosed on certain developments and the expected results of those developments included in this report under review of operations, further information on likely developments in the operations of the Group and the expected results of those operations have not been disclosed in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATIONS

The Group's operations are subject to normal State and Federal Environmental Regulations. There were no breaches of these regulations during the year or to the date of this report.

INFORMATION ON DIRECTORS

David Oliver Paterson – Executive Chairman **Age 58**

Experience and Expertise

Mr Paterson is a qualified non-practising Chartered Accountant and a graduate from the University of Queensland. He is the Director of Europacific Corporate Advisory Pty Ltd and has held an Investment Dealers Licence since 1990. Prior to forming Europacific in 1990, he was a Group Manager of the Corporate Services Division of Tricontinental Corporation Limited responsible for NSW and Queensland. He also worked for Coopers & Lybrand in Brisbane and Sydney in their Corporate Services Division. He has been involved in a wide range of corporate advisory assignments and underwritings of both debt and equity for a number of public and private companies.

Mr Paterson has experience in the property and mining industries, in relation to:

- Project financing;
- Financial analysis;
- Valuations; and
- The raising of debt and equity.

Appointed as a Director on 23 August 2002

Other Current Public Company Directorships

None

Former Public Company Directorships in Last 3 Years

Moore Australia (Holdings) Limited

Special Responsibilities

Chairman of the Board of Directors
Member of Audit Committee

Interests in Securities

54,457,232 ordinary shares in Latrobe Magnesium Limited, of these shares 2,577,922 are held as a direct interest and 51,879,310 are registered in the name of Rimotran Pty Limited, as trustee for the David Paterson Super Fund.

Kevin Anthony Torpey – Non Executive Director **Age 73**

Experience and Expertise

Mr Torpey is a Chartered Professional Engineer and a graduate from Sydney University. Over the last 40 years he has been involved in the development of many diverse major projects involving oil, iron ore, aluminium, nickel, lead/zinc, uranium, magnesite, coal and gold, located locally, in Ireland and Indonesia. Generally these projects have been associated with major companies such as Consolidated Goldfields, EZ Industries, Alcan, International Nickel, Tara Minerals Limited (Ireland), Noranda, Denison Mines (Canada), Toyota, Mitsubishi and Iwatani. For the last 20 years his association has mainly been as a corporate officer initially as Managing Director of Denison Mines (Australia) and then Managing Director of Devex Limited. Over the last few years he has acted as a consultant to a number of companies involved in mining projects and new technologies.

Appointed as a Director on 11 April 2002

Other Current Public Company Directorships

Empire Energy Group Ltd.

DIRECTORS' REPORT

Former Public Company Directorships in Last 3 Years

None

Special Responsibilities

None

Interests in Securities

81,656,396 ordinary shares in Latrobe Magnesium Limited, these shares are held by Famallon Pty Ltd and Famallon Pty Ltd ATF Famallon No.2 Super Fund. Mr Torpey is a principal of Famallon Pty Ltd and a beneficiary of the fund.

Philip Francis Bruce – Non Executive Director **Age 60**

Experience and Expertise

Mr Bruce is a director of P F Bruce & Associates, which provides corporate and project management services. He is a mining engineer with over thirty years resource industry experience in Australia, South Africa and Indonesia in operations, project development and corporate management. He was the CEO of PT BHP Indonesia, Managing Director of Triako Resources Limited and was the General Manager – Development for Plutonic Resources Limited, where he was technically responsible for acquisition and development of resource projects during the Company's period of growth from $35 million to over $1 billion in market capitalisation.

Appointed as a Director on 4 September 2003

Other Current Public Company Directorships

Managing Director of Hill End Gold Limited

Former Public Company Directorships in Last 3 Years

Archean Star Resources Inc.

Special Responsibilities

None

Interests in Securities

6,429,189 ordinary shares in Latrobe Magnesium Limited, of these shares 2,987,699 are held as a direct interest and 3,441,490 shares are registered in the name of Diazill Pty Limited of which Mr Bruce is a Director.

John Robert Lee – Non Executive Director **Age 65**

Experience and Expertise

Mr Lee has a broad range of commercial skills and experiences in both the public and private sectors. He has held senior management roles in the Federal Department of Employment and Industrial Relations. He was also senior private secretary and principal adviser to Tony Street, a senior federal cabinet minister. In the private sector, Mr Lee has held a number of senior management positions with a number of major corporations including Henry Jones IXL, Elders Building Supplies and Woolworths Limited. He is the founder of Stockholder Relations, a management consultancy specialising in corporate advisory, investor relations and corporate governance.

Appointed as a Director on 10 December 2010

Other Current Public Company Directorships

None

Former Public Company Directorships in Last 3 Years

Moore Australia (Holdings) Limited
Mongolian Resources Corporation Limited

Special Responsibilities

Chairman of Audit Committee

Interests in Securities

None

DIRECTORS' REPORT

COMPANY SECRETARY

The Company Secretary is Mr David Hughes. Mr Hughes was appointed to the position of Company Secretary on 14 August 2002. Before joining Latrobe Magnesium Limited he has held similar positions with other listed companies for over 20 years. He is currently acting as Company Secretary of the following other listed public companies:

- Empire Energy Group Limited, Hudson Investment Group Limited, Hudson Resources Limited, Tiaro Coal Limited and Australian Bauxite Limited.

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2012 and the number of meetings attended by each Director was:

	Directors' Meetings		Audit Committee Meetings	
Director	**Attended**	**Held Whilst in Office**	**Attended**	**Held Whilst in Office**
D O Paterson	4	4	2	2
P F Bruce	4	4	-	-
K A Torpey	4	4	-	-
J R Lee	4	4	2	2

The Board has yet to appoint a Nominations and Remuneration Committee. The matters that would normally be the responsibility of these committees are dealt with by the full Board of Directors.

Retirement, Election and Continuation in Office of Directors

- Mr P F Bruce is the Director retiring by rotation at the next Annual General Meeting of the Company. Mr Bruce being eligible in accordance with Article 12.2 of the Company's constitution offers himself for re-election.

REMUNERATION REPORT - AUDITED

This report outlines the Remuneration Arrangements in place for each key management person of Latrobe Magnesium Limited. Principles used to determine the nature and amount of remuneration are:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage / alignment of executive compensation
- Transparency
- Appropriateness for level of operations

Remuneration Committee

The Board has not yet formed a separate Remuneration Committee and all matters that would normally be the responsibility of a Remuneration Committee are dealt with by the full Board of Directors.

Key Management Personnel

The full Board of Directors sets remuneration policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Executive remuneration and other terms of employment are reviewed annually having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as basic salary, remuneration packages include superannuation.

Directors and executives are also able to participate in an Employee Share Acquisition Plan. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Group's operations.

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by shareholders from time to time.

DIRECTORS' REPORT

The Board undertakes an annual review of its performance and the performance of the Board Committees against goals set at the start of the year.

Details of the nature and amount of each element of the emoluments of each Director of Latrobe Magnesium Limited and each specified officer of the Company and the Group receiving the highest emoluments are set out in the following tables.

The information which follows through to the section titled "Share Options Granted to Key Management Personnel" is subject to audit by the external auditors.

2012 Directors	Base Emoluments	Super Contributions	Equity Options	Total	Performance Related %
	$	$	$	$	
D O Paterson	261,600	-	-	261,600	-
K A Torpey	76,300	-	-	76,300	-
P F Bruce	20,000	1,800	-	21,800	-
J R Lee	21,804	-		21,804	-
	379,704	1,800	-	381,504	-
Other Key Management Personnel					
D L Hughes	18,000	-	-	18,000	-
Total	397,704	1,800	-	399,504	-

2011 Directors	Base Emoluments	Super Contributions	Equity Options	Total	Performance Related %
D O Paterson	142,650	4,500	-	147,150	-
K A Torpey	59,950	-	-	59,950	-
P F Bruce	20,000	1,800	-	21,800	-
R D Foster	8,889	800	-	9,689	-
J R Lee	12,133	-	-	12,133	-
	243,622	7,100	-	250,722	-
Other Key Management Personnel					
D L Hughes	18,000	-	-	18,000	-
Total	261,622	7,100	-	268,722	-

There are no additional executives employed by Latrobe Magnesium Limited other than those already disclosed.

Service Agreements

There are currently no service agreements in place formalising the terms of remuneration of Directors or other key management personnel of the Company and the Group. The above emoluments for D O Paterson and K A Torpey were agreed by the Board for the term of the prefeasibility and bankable feasibility study.

Share Options Granted to Key Management Personnel

Granted - No options were granted to key management personnel over unissued shares during the financial year.

Exercised - No options were exercised by key management personnel during or in the period since the end of the financial year and up to the date of this report.

Expiry - No options expired during or since the end of the financial year.

End of Audited Remuneration Report.

SHARES UNDER OPTION

At the date of this report, there were no unissued shares under option. An option was exercised during the year over 9,000,000 fully paid ordinary shares.

Number	Grant Date	Exercise Price	Exercise Date
9,000,000 unlisted options	26 August 2009	$0.005	29 June 2012

DIRECTORS' REPORT

INDEMNIFICATION

During or since the end of financial year, the Company has not been indemnified or made a relevant agreement to indemnify an officer or auditor of the Company or any related body corporate against liability incurred as such an officer or auditor. The Company maintains a Directors and Officers Liability Insurance, including company securities cover.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to Nexia Court & Co for services provided during the year are set out below:

	$
Audit and Review of Financial Reports	33,399
Taxation Services	3,671
	======

The Board of Directors ensure that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

AUDITORS' INDEPENDENT DECLARATION

A copy of the auditors' independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on Page 19 and forms part of this report.

This report is made in accordance with a resolution of the Directors.

D. Paterson

D O Paterson
Chairman

J R Lee
Director

Dated in Sydney this 26th day of September 2012

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Latrobe Magnesium Limited.

As lead audit partner for the audit of the financial statements of Latrobe Magnesium Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Andrew Hoffmann

Partner

Nexia Court & Co

Nexia Court & Co

Chartered Accountants

Sydney, 26 September 2012

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DIRECTORS' DECLARATION

The directors of the company declare that:

1. in the directors' opinion, the financial statements and accompanying notes set out on Pages 21 to 45 are in accordance with the Corporations Act 2001 and:

    (a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and

    (b) give a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date;

2. Note 1 confirms that the financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);

3. in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

4. the remuneration disclosures included in Pages 16 to 17 of the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2012, comply with section 300A of the Corporations Act 2001; and

This declaration is made in accordance with a resolution of the Board of Directors pursuant to section 295(4) of the Corporations Act 2001 and is signed for and on behalf of the directors by:

D. Paterson

D O Paterson
Chairman

J R Lee
Director

Dated in Sydney this 26th day of September 2012

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2012

	Note	GROUP 2012 $	GROUP 2011 $
Revenue			
Finance Income		14,557	15,106
Other Income		548,608	243,010
	3	563,165	258,116
Administration expenses		(856,041)	(590,635)
Research and evaluation expenses	3	(510,884)	(151,506)
Exploration expenses		(209,139)	(122,124)
Total expenses		(1,576,064)	(864,265)
Income tax expense	4	-	-
Loss attributable to members of the parent entity		(1,012,899)	(606,149)
Other Comprehensive Income			
Other Comprehensive Income for the year		-	-
Total Comprehensive Income		(1,012,899)	(606,149)

The above income statement should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
As at 30 June 2012

	Note	GROUP 2012 $	GROUP 2011 $
CURRENT ASSETS			
Cash and cash equivalents	5	70,576	464,957
Trade and other receivables	6	736,884	291,551
Total Current Assets		807,460	756,508
NON-CURRENT ASSETS			
Trade and other receivables	6	23,760	23,760
Property, plant and equipment	7	801	337
Intangible assets	8	5,701,096	5,684,000
Total Non-Current Assets		5,725,657	5,708.097
TOTAL ASSETS		6,533,117	6,464,605
CURRENT LIABILITIES			
Trade and other payables	9	111,028	63,603
Total Current Liabilities		111,028	63,603
TOTAL LIABILITIES		111,028	63,603
NET ASSETS		6,422,089	6,401,002
EQUITY			
Issued capital	10	26,472,507	25,438,521
Reserves	11	-	39,420
Accumulated losses		(20,050,418)	(19,076,939)
TOTAL EQUITY		6,422,089	6,401,002

The above balance sheet should be read in conjunction with the accompanying notes

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STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2012

GROUP	Issued Capital $	Reserves $	Accumulated Losses $	Total $
Balance at 30 June 2010	24,187,021	39,420	(18,470,790)	5,755,651
Total comprehensive income	-	-	(606,149)	(606,149)
Shares issued during the period	1,281,500	-	-	1,281,500
Cost of shares issued	(30,000)	-	-	(30,000)
Balance at 1 July 2011	25,438,521	39,420	(19,076,939)	6,401,002
Total comprehensive income	-	-	(1,012,899)	(1,012,899)
Shares issued during the period	1,078,136	-	-	1,078,136
Cost of shares issued	(44,150)	-	-	(44,150)
Transfer Reserves to Accumulated Losses	-	(39,420)	39,420	-
Balance at 30 June 2012	26,472,507	-	(20,050,418)	6,422,089

	Note	GROUP 2012 No	GROUP 2011 No
Issued Shares		741,306,476	688,235,371
Basic and diluted loss per share (cents per share)	18	(0.137)	(0.088)

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASHFLOWS
For the year ended 30 June 2012

	Note	GROUP 2012 $	GROUP 2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from operations		266,336	106,941
Payments to suppliers and employees		(1,327,513)	(657,192)
Interest received		10,979	15,106
Net cash used in operating activities	17b	(1,050,198)	(535,145)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment of mining tenements expenditure		(40,248)	-
Payment of International Patent expenditure		(17,121)	-
Net cash used in investing activities		(57,369)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Issue of Shares		713,186	1,014,100
Rent Bond held in bank deposit		-	(23,760)
Net cash from financing activities		713,186	990,340
Net increase in cash and cash equivalent held		(394,381)	455,195
Cash and cash equivalent at beginning of the financial year		464,957	9,762
Cash and cash equivalent at end of financial year	17a	70,576	464,957

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report and covers Latrobe Magnesium Limited and its controlled Entities (the "Group") and Latrobe Magnesium Limited as an individual parent entity. Latrobe Magnesium Limited is a company limited by shares, incorporated in Australia, whose shares are publicly traded on the ASX.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values. Cost is based on the fair values of the consideration given in exchange for assets.

It is also recommended that the financial report be considered together with any public announcements made by the Group during the year ended 30 June 2012, in accordance with continuous disclosure obligations arising under both the Corporation Act 2001 and Australian Stock Exchange Listing Rules.

The financial report is presented in the Australian currency.

Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS') in their entirety.

A summary of significant accounting policies of the Group under AIFRS are disclosed below. The accounting policies have been consistently applied, unless otherwise stated.

a. Principles of Consolidation

The consolidated financial statements comprise the financial statements of Latrobe Magnesium Limited and its subsidiaries at 30 June each year ("the Group"). Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Potential voting rights that are currently exercisable or convertible are considered when assessing control. Consolidated financial statements include all subsidiaries from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

All inter-Company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Subsidiaries are accounted for in the parent entity financial statements at cost.

A list of controlled entities is contained in Note 12 to the financial statements.

b. Income Tax

The Group adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. Deferred tax assets in relation to tax losses are not brought to account unless there is convincing evidence of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Latrobe Magnesium Limited and its wholly-owned Australian subsidiaries have formed an income tax group under the Tax Consolidation Regime. Each entity in the Group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each Group entity is then subsequently assumed by the parent entity. The Group notified the ATO on 2 January 2003 that it had formed an income tax group to apply from 1 July 2002. The tax group has entered a tax sharing agreement whereby each Company in the Group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax group.

c. **Foreign Currency Transactions and Balances**

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity otherwise the exchange difference is recognised in the income statement.

d. **Plant and Equipment**

Plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairment.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present value in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over their useful lives to the Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment - diminishing value	30-40%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in the income statement in the year that the item is derecognised.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

e. **Intangibles**

Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business or for ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Impairment losses on goodwill cannot be reversed.

Research and development

Research costs are expensed as incurred. Development expenditure incurred on an individual project is capitalised only if the product or service is technically feasible, adequate resources are available to complete the project, it is probable that future economic benefits will be generated and expenditure attributable to the project can be measured reliably. Expenditure capitalised comprises costs of materials, services, direct labour and an appropriate portion of overheads. Other development costs are expensed when they are incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and any impairment losses and amortised over the period of expected future sales. The carrying value of development costs is reviewed annually when the asset is not yet available for use, or when events or circumstances indicate that the carrying value may be impaired.

f. **Impairment of Non Financial Assets**

At each reporting date the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the income statement where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

g. **Exploration and Evaluation Expenditure**

Exploration and evaluation assets, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis.

Exploration and evaluation assets are only recognised if the rights to tenure of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale or partial sale: or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if:

(i) sufficient data exists to determine technical feasibility and commercial viability, and

(ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Currently the practice is to capitalise all expenses that have been incurred and are in direct relation to the exploration of resources.

Indirect costs such as administration and general operations costs will be expensed on the basis that they are necessarily incurred.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

h. **Investments and other financial assets**

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

The classification depends on the purposes for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (Note 6) in the balance sheet.

After initial measurement, loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through amortisation process.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for these with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

(iv) Available-for-sale financial assets.

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designed in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium or long term.

(v) Recognition and de-recognition

Regular purchase and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the assets. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value and transaction costs are expenses in profit and loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(vi) Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in Note 2d.

(vii) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measure as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is reclassified from equity and recognised in profit and loss as a reclassification adjustment. Impairment losses recognised in profit and loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost; the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

i. **Finance Costs**

Finance costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other finance costs are recognised in income in the period in which they are incurred.

j. **Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-borrowings in current liabilities on the balance sheet.

k. **Revenue**

Interest

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the cost they are compensating.

l. **Trade and Other Payables**

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and have up to 60 day payment terms.

m. **Interest bearing liabilities**

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the loans and borrowings using the effective interest method.

All borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

n. **Other liabilities**

Other liabilities comprise non-current amounts due to related parties that do not bear interest and are repayable in 366 days from balance sheet date. As these are non-interest bearing, fair value at initial recognition requires an adjustment to discount these loans using a market-rate of interest for a similar instrument with a similar credit rating (Group's incremental borrowing rate). The discount is credited to the income statement immediately and amortised using the effective interest method.

o. **Provisions**

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated. For service warranties, the likelihood that an outflow will be required to settle the obligation is determined by considering the class of obligations as a whole. Provisions are not recognised for future operating losses.

Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

p. **Share-based payments**

For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received.

q. **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

r. **Contributed equity**

Ordinary shares are classified as equity (refer Note 10).

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

s. **Dividends**

Provision is made for dividends declared, and no longer at the discretion of the Group, on or before the end of the financial year but not distributed at balance date.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

t. **Earnings per share**

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to members of Latrobe Magnesium Limited, adjusted for the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares during the year.

The weighted average number of issued shares outstanding during the financial year does not include shares issued as part of the Employee Share Loan Plan that are treated as in-substance options.

Diluted earnings per share

Earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

u. **Goods and Services Tax (GST)**

Revenues, expenses are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

v. **Critical Accounting Estimates and Judgments**

The Directors evaluate, estimate and make judgements which are incorporated into the financial report based on historical knowledge and best available current information.

Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to an impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value in use calculations performed in recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of the intangible assets for the year ended 30 June 2012 because:

- the Company's internal valuation indicates that the recoverable amount of the asset is greater than the book value of the assets;
- the magnesium price supports this valuation; and
- the Company is utilising the proven Thermal Reduction Process in its process with estimates of its capital and operating costs which are based on its pre-feasibility study.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

NOTE 2: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's risk management policy sets out the Company's overall risk management framework and policies, including monthly review by the Board of the Company's financial position and financial forecasts.

a. Principal financial instruments

The principal financial instruments are as follows:

(i) Cash
(ii) Trade and other receivables
(iii) Inter Company balances
(iv) Trade and other payables

The Group does not use derivative financial instruments, and has no off-balance sheet financial assets and liabilities at year-end.

b. Financial instrument risk exposure and management

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. These main risks, arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign exchange currency risk, share market risk, credit risk and commodity risk. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

c. General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

(i) Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 90 days.

The Group's exposure to liquidity risk has been assessed as minimal. There are no past due payables at balance date.

The Board receives cash flow projections on a monthly basis as well as information regarding cash balances. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

(ii) Interest Rate Risk

The Group's exposure to interest risk arises when the value of financial instruments fluctuates as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities.

The Group's exposure to interest rate risk only extends to cash and cash equivalents at balance date. The Group's exposure to interest rate risk at 30 June 2012 and 30 June 2011 is set out in the following tables:

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

CONSOLIDATED

Year ended 30 June 2012	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest maturing in 1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
	%	$	$	$	$	$	$
Financial assets							
Cash and cash equivalents	2.00	70,576	-	-	-	-	70,576
Trade & other receivables	4.00	-	155,378	-	-	581,506	736,884
Total Financial Assets		70,576	155,378	-	-	581,506	807,460
Financial liabilities							
Trade and other payables	-	-	-	-	-	(111,028)	(111,028)
Net financial assets		70,576	155,378	-	-	470,478	696,432

Year ended 30 June 2011	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest maturing in 1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
	%	$	$	$	$	$	$
Financial assets							
Cash and cash equivalents	4.00	156,080	308,877	-	-	-	464,957
Trade & other receivables	-	-	-	-	-	291,551	291,551
Total Financial Assets		156,080	308,877	-	-	291,551	756,508
Financial liabilities							
Trade and other payables	-	-	-	-	-	(63,603)	(63,603)
Net financial assets		156,080	308,877	-	-	227,948	692,905

(iii) Foreign exchange currency risk

The Group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the Group's measurement currency.

There was no exposure to foreign currency risk at balance date.

(iv) Share market risk

The Company relies greatly on equity markets to raise capital for its exploration and its magnesium project development activities, and is thus exposed to equity market volatility.

When market conditions require prudent capital management, in consultation with its professional advisers the Group looks to alternative sources of funding, including the sale of assets and joint venture participation.

(v) Credit risk

Credit risk arises principally when the other party to a financial instrument fails to discharge its obligations in respect of that instrument.

The Group's exposure to credit risk arises from potential default of the counter party, with the maximum exposure equal to the carrying amount of these instruments.

Trade and receivable balances are monitored on an ongoing basis with the Group's exposure to bad debts minimal. There was no exposure to trade receivable credit risk at balance date.

The Group does not have any material credit risk exposure to any single receivable or Group of receivables under financial instruments entered into by the Group.

Other receivables comprise GST. Credit worthiness of debtors is undertaken when appropriate.

(vi) Commodity risk

Commodity price risk arises when the fair value of future cash flows of a financial instrument will fluctuate because of changes in commodity market prices.

The Group had no exposure to commodity price risk at balance date. The Group's potential exposure to commodity price risk will materialise in the event that development of the Group's Latrobe Magnesium Project proceeds.

(vii) Market risk

Market risk does not arise as the Group does not use interest bearing, tradeable or foreign currency financial instruments.

As the financial assets held by the company as at 30 June 2012 were cash and cash equivalents and trade and other receivables, and the value of these financial assets are not affected by the short-term movement in interest rates, a market risk sensitivity has not been performed.

(viii) Equity price risk

Equity price risk arises from investments in equity securities and Latrobe Magnesium Limited's issued capital.

The Group had no exposure to investments in equity securities at balance date.

The capacity of the Company to raise capital from time to time may be influenced by either or both market conditions and the price of the Company's listed securities at that time.

d. Fair value of financial assets and liabilities

The fair value of all monetary financial assets and financial liabilities of Latrobe Magnesium approximate their carrying value.

There are no off-balance sheet financial asset and liabilities at year-end. All financial assets and liabilities are denominated in Australian dollars.

NOTE 3: LOSS FROM ORDINARY ACTIVITIES

	GROUP	
	2012	**2011**
	$	**$**
The following revenue and expense items are relevant in explaining the financial performance for the period.		
(i) **Revenue**		
Finance Income	14,557	15,106
Other Income		
Research and development tax rebate	548,608	243,010
	563,165	258,116
(ii) **Expenses**		
Depreciation	309	158
Research and evaluation expenses	510,884	151,506
Directors Fees	379,704	243,622
Directors Superannuation	1,800	7,100
Exploration Expense	209,139	122,124

NOTE 4: INCOME TAX EXPENSE

	GROUP	
	2012	**2011**
	$	**$**
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax benefit as follows:		
Loss from ordinary activities before income tax	1,012,899	606,149
Prima facie tax benefit on loss from ordinary activities before income tax at 30%	(303,870)	(181,845)
Increase in income tax benefit due to:		
Other allowable deductions	(23,984)	(14,629)
Timing differences and tax losses not brought to account as future income tax benefit.	327,854	196,474
Income tax benefit attributable to loss from ordinary activities before income tax	-	-

Net deferred tax asset not taken to account

The potential future income tax benefit arising from tax losses has not been taken to account because of the absence of convincing evidence of the realisation of the benefit.

	GROUP	
	2012	**2011**
	$	**$**
Benefit of tax losses carried forward:		
Tax losses carried forward	1,624,646	1,524,815
Capital losses	818,514	818,514
	2,443,160	2,343,329

The deferred tax asset will only be released if:

i. the Group derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;

ii. the Group continues to comply with the conditions for deductibility imposed by the law; and

iii. no changes in tax legislation adversely affect the Group in realising the benefit.

NOTE 5: CASH AND CASH EQUIVALENTS

	GROUP	
	2012	**2011**
	$	**$**
Cash at bank	70,576	464,957

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

NOTE 6: TRADE AND OTHER RECEIVABLES

	GROUP	
	2012	2011
	$	$
CURRENT		
R&D tax concession	548,608	266,336
GST recoverable	32,898	25,215
Promissory Note	155,378	-
	736,884	291,551
NON-CURRENT		
Rent Bond held in bank deposit	23,760	23,760
	23,760	23,760

- Loans to controlled entities are unsecured and are interest free and have no fixed term of repayment.
- There are no balances within trade and other receivable that are impaired and are past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

NOTE 7: PROPERTY, PLANT AND EQUIPMENT

	GROUP	
	2012	2011
	$	$
Plant and equipment at cost	1,581	809
Accumulated depreciation	(780)	(472)
Total Property, Plant and Equipment	801	337

Movements in Carrying Amounts

Between the beginning and the end of the current financial year, movements in the carrying amounts for each class of property, plant and equipment are:

	Plant and Equipment	Plant and Equipment
	2012	2011
Economic Entity:	$	$
Balance at 1 July 2011	337	496
Additions	773	-
Depreciation expense	(309)	(159)
Carrying amount at 30 June 2012	801	337

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

NOTE 8: INTANGIBLE ASSETS

	GROUP	
	2012	2011
	$	$
Acquired in-process research and development, at cost	5,684,000	5,684,000

- Latrobe Magnesium Project based in the Latrobe Valley in Victoria.
- as the project is not held ready for use, the Company is required to perform an annual impairment test. The key assumptions underlying this impairment test have been based on data provided in the Company's Pre-feasibility Study and subsequent reports. The key assumptions are adjusted to incorporate risks with a particular segment, and are summarised as follows:
- budgeted cash flow period of 20 years;
- initial production of 5,000 tonnes increasing to 40,000 tonnes;
- magnesium metal price of US$3,750 per tonne is used which represents a 4% discount to the current average price between China and the United States.
- market information for forward exchange rates;
- operating costs based upon third party consultant's estimates;
- capital costs based upon third party consultant's estimates; and
- a pre-tax discount rate of 18%.

International Patent – Joint worldwide patent application with Ecoenigneers for the Hydromat Process	17,096	-
Total Intangible Assets	5,701,096	5,684,000

NOTE 9: TRADE AND OTHER PAYABLES

	GROUP	
	2012	2011
	$	$
CURRENT		
Trade creditors	111,028	63,603
	111,028	63,603

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

NOTE 10: ISSUED CAPITAL

			GROUP	
			2012	2011
			$	$
(a)	**Ordinary Shares Issued and Fully Paid**			
	Balance at beginning of reporting period		25,438,521	24,187,021
	October 2010	700,000 shares issued at $0.015 to settle fees owing to consultant	-	10,500
	November 2010	40,000,000 shares issued at $0.015 pursuant to a private placement	-	600,000
	November 2010	29,606,656 shares issued at $0.015 pursuant to a share purchase plan	-	444,100
	December 2010	14,733,765 shares issued at $0.0154 to convert debt owing to directors and officers	-	226,900
	Transaction costs relating to share issues		-	(30,000)
	September 2011	6,500,000 shares issued at $0.026 to pay option fee for tenement acquisition	169,000	-
	November 2011	17,500,000 shares issued at $0.023 pursuant to a private placement	402,500	-
	December 2011	20,071,105 shares issued at $0.023 pursuant to a share purchase plan	461,636	-
	June 2012	9,000,000 shares issued at $0.005 Pursuant to an exercise of share option	45,000	
	Transaction costs relating to share issues		(44,150)	-
	Balance at end of reporting period		26,472,507	25,438,521

		2012	2011
(b)	**Shares on Issue**	**No.**	**No.**
	Balance at beginning of reporting period	688,235,371	603,194,950
	Share Issues:		
	- 27 October 2010		700,000
	- 30 November 2010		40,000,000
	- 30 November 2010		29,606,656
	- 20 December 2010		14,733,765
	- 30 September 2011	6,500,000	
	- 21 November 2011	17,500,000	
	- 21 December 2011	20,071,105	
	- 30 June 2012	9,000,000	
	Balance at end of reporting period	741,306,476	688,235,371

Fully paid ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

Options

At the date of this report, there were no unissued shares under option. An option was exercised during the year over 9,000,000 fully paid ordinary shares.

Number	Grant Date	Exercise Price	Exercise Date
9,000,000 unlisted options	26 August 2009	$0.005	29 June 2012

Employee Share Plan Scheme

For information relating to the Latrobe Magnesium Limited Share Plan Acquisition Plan, refer to Note 20: Employee Benefits. No shares were issued during the financial year.

Capital Management

The Group considers its capital to comprise its ordinary share capital and reserves.

In managing its capital, the Group's primary objective as an explorer is to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. The Group has no debt hence has a nil ratio.

In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or consideration of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

NOTE 11: RESERVES

	GROUP	
	2012	**2011**
	$	**$**
Share based payments reserve		
Balance at the beginning of the year	39,420	39,420
Transfer Reserves to Accumulated Losses	(39,420)	-
Balance at the end of the year	-	39,420

The Share based payments reserve relates to share options granted to Data Tech Financial Services Pty Limited for corporate advisory services. Further information about share-based payments is set out in Note 21. Following the share option exercised by Data Tech on 29 June 2012, this reserve is transferred to Accumulated Losses.

NOTE 12: CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned (%) 2012	2011
Parent Entity:			
Latrobe Magnesium Limited	Australia	-	-
Subsidiaries of Latrobe Magnesium Limited			
Money Management WA Pty Ltd	Australia	100	100
Gold Mines of WA Pty Ltd	Australia	100	100
Magnesium Investments Pty Ltd	Australia	100	100

NOTE 13: CAPITAL AND LEASING COMMITMENTS

The Company's office lease will expire on 30 September 2013, with an option to renew for one year. The monthly rent of $4,964 is payable monthly in advance.

NOTE 14: SEGMENT REPORTING

The Group has adopted AASB 8 *Operating Segments* with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (AASB 114 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of AASB 8, the board of directors believe there is only one operating segment and this is reflected in managements reporting processes.

AASB 8 requires a management approach under which segment information is presented on the same bases as that used for internal reporting purposes. The Group consist one business segment being the development of its Magnesium extraction process.

In August 2011, the Company secured an option to purchase a Rare Earths project in Western Australia and the option was terminated on 5 September 2012. The principal activity of the Group was the continued development of the Latrobe Magnesium Metals project. (Refer Directors' Report for further information.)

	Latrobe Magnesium $	Rare Earths $	Total $
Revenue	563,165	0	563,165
Profit & Loss	(803,760)	(209,139)	(1,012,899)
Assets	6,533,117	0	6,533,117
Liabilities	111,028	0	111,028

NOTE 15: REMUNERATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

Names and positions held of parent entity Directors at any time during the financial year are:

David Paterson	Chairman - Executive
Kevin Torpey	Director - Non-Executive
Philip Bruce	Director - Non-Executive
John Lee	Director - Non Executive

Directors & Other Key Management Personnel	Base Emolument $	Superannuation $	Total $	Performance Related %
2011	261,622	7,100	268,722	-
2012	397,704	1,800	399,504	-

Shareholdings

Number of shares held by Directors and Other Key Management Personnel of Parent Entity.

Directors & Other Key Management Personnel	Balance at beginning of date of appointment	Acquired under Share Purchase Plan for Shareholders	Net Change Other	Acquired Under Debt Conversion to Equity	Balance at 30 June 2012
D O Paterson	35,933,333	833,333	5,896,298	11,794,268	54,457,232
K A Torpey	65,333,334	833,333	9,592,595	5,897,134	81,656,396
P F Bruce	3,441,490	-	-	2,987,699	6,429,189
J R Lee	-	-	-	-	-
D L Hughes	2,540,000	1,373,333	-	2,554,945	6,468,278

Option holdings

There were no options over unissued shares in the Company held during the financial year by any Director or key management personnel of the Company including their related entities.

NOTE 16: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

Transactions with and amounts receivable from and payable to Directors of related parties or their director related entities which:

a. occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is resonable to expect the entity would have adopted if dealing with the director or director related entities at arms length in the same circumstances;

b. do not have the potential to adversely affect decisions about the allocations of scarce resources made by users of the financial report, or the discharge of accountability by the director's if disclosed in the financial report only by general description; and

c. are trivial or domestic in nature must be excluded from the detailed disclosures required. Such transactions and amounts receivable or payable shall be disclosed in the financial report by general description.

		GROUP	
	Other related entities	**2012**	**2011**
		$	**$**
(i)	Director's fees were paid to Famallon Pty Ltd of which K A Torpey is a principal.	76,300	59,950
(ii)	Director's fees were paid to Shareholders Relation of which J R Lee is a principal.	21,804	12,133
(iii)	Secretarial fees were paid to Lithgow Quarrying and Excavation Co. Pty Ltd of which D L Hughes is a principal.	18,000	18,000
(iv)	Administration and accounting fees were paid to Europacific Corporate Advisory Pty Ltd of which D O Paterson is a principal.	12,000	14,880

NOTE 17: CASH FLOW INFORMATION

		GROUP	
		2012	**2011**
		$	**$**
a.	**Reconciliation of Cash**		
	Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
	Cash at Bank	70,576	464,957
b.	**Reconciliation of cash flow from operating activities to operating loss after income tax:**		
	Net loss	(1,012,899)	(606,149)
	<u>Adjustment of non cash items</u>:		
	Depreciation	309	158
	Shares issued to convert debts from Officeholders and Consultants	-	237,400
	Tenement costs transferred from Balance Sheet	209,139	122,008
	<u>Changes in Assets and Liabilities</u>:		
	(Increase) in receivables and other assets	(294,171)	(155,700)
	Increase in trade and other payables	47,424	(132,862)
	Net Cash used in Operating Activities	(1,050,198)	(535,145)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

c. Acquisition and Disposal of Entities

There was no acquisition or disposal of controlled entities during the 2012 or 2011 financial years.

d. **Non-cash Financing and Investing Activities**

Share Issue

2012	
September 2011	6,500,000 fully paid ordinary shares issued at $0.026 to pay option fee for tenement acquisition.
2011	
October 2010	700,000 fully paid ordinary shares issued at $0.015 to settle fees owing to consultant.
December 2010	14,733,765 fully paid ordinary shares issued at $0.0154 to convert debt owing to directors and officers.

NOTE 18: LOSS PER SHARE

			GROUP	
			2012	**2011**
	Reconciliation of loss to net loss:			
(a)	Basic and diluted loss per share	cents per shares	(0.137)	(0.088)
(b)	Loss used in the calculation of EPS	$	(1,012,899)	(606,149)
(c)	Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS		741,306,476	688,235,371

There were no unissued shares under option at 30 June 2012.

NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities for the year ended 30 June 2012 (2011: Nil).

NOTE 20: EMPLOYEE BENEFITS

Employees Share Acquisition Plan

The Directors have approved the implementation of a Share Acquisition Plan.

The Plan provides for eligible participants to purchase shares in the Company tax effectively through salary sacrifice. Shares will be acquired on the Australian Stock Exchange at prevailing market prices on or about the first trading day following the normal monthly pay day. The shares including transaction costs will be met by the pre-tax remuneration forgone by the Plan participant. Administration costs of the Plan will be met by the Company.

The minimum contribution under the Plan is $2,400 per annum. Participants can allocate up to 100% of their gross remuneration.

During the period under review and the previous corresponding period, there were no shares purchased in accordance with the employee share acquisition plan.

NOTE 21: SHARE BASED PAYMENT

On 21 August 2009, the company issued 9,000,000 options as consideration for corporate advisory services rendered by Data Tech Financial Services Pty Limited. The options, with expiring date of 30 June 2012, were fully vested and exercisable at a price of $0.005. The options issued above had been valued at the issue date at $0.00438 per share using the Black-Scholes model resulting in a total cost of $39,420.

Vested number	Granted number	Grant date	Value per option at grant date	Exercise Price $	Expiry Date	First Exercise Date
9,000,000	9,000,000	21/08/2009	$0.00438	$0.005	30/06/2012	21/8/2009

On 29 June 2012, the unissued 9,000,000 shares under options were exercised by Data Tech and 9,000,000 fully paid ordinary shares issued.

NOTE 22: EVENTS SUBSEQUENT TO REPORTING DATE

On 18 August 2011, LMG finalised an option agreement to acquire a 100% interest in a Rare Earth Project at Errida Creek in the Gascoyne region of Western Australia. As the Native Title Agreements were not executed during the year, the Company was unable to conduct any exploration activities. The Company decided not to take up its second year option and the option agreement has been terminated on 5 September 2012. It has therefore been decided to expense all the costs incurred in relation to this project in the 2012 financial year.

There are no other significant events subsequent to reporting date which will affect the operations and state of affairs of the Group.

NOTE 23: GOING CONCERN

Notwithstanding the loss for the year, negative cash flow from operations and historical financial performance, the financial report has been prepared on a going concern basis. This assessment is based on a cash on hand balance at balance date and the collection of trade and other receivables after year end.

The directors have performed a review of the cash flow forecasts and have considered the cash flow needs of the company and consolidated group, including the ability to reduce the level of cash expenditure if required to do so.

Directors have initiated discussions with a number of parties that have expressed interest in supporting the Company with its capital requirements. At this time no financial commitment is contracted but discussions are continuing. The Company does have the ability to raise extra funds through a placement if required. However, should sufficient and appropriate capital not be available to the company on a timely basis the directors will require the cessation of operational activities of the magnesium project and a further reduction in expenditure on staff and directors. The business would, under this scenario, continue to operate on existing capital reserves.

The Company has prepared cash flow forecasts for this base-case scenario and the directors are therefore satisfied that the Company will be able to continue to operate as a going concern on this basis.

NOTE 24: CHANGES IN ACCOUNTING STANDARDS

The following Australian Accounting Standards, which have been issued or amended, are applicable to the Company but have not been adopted in preparation of the financial statements at reporting date. Application of these standards will not affect any of the amounts recognised or disclosed in the financial statements.

Australian Accounting Standard	Title	Mandatory Application Date	Possible Impact
AASB 9	Financial Instruments	1 January 2013	AASB 9 and AASB 2009-11 address the classification and measurement of financial assets and are likely to affect the group's accounting for its financial assets. The group is yet to assess its full impact. However, initial indications are that it may affect the group's accounting for available-for sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investment that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011	The principle amendments contained in AASB 2010-4 are as follows: • accounting policy changes in the year of adoption (AASB 1); • revaluation basis as deemed cost (AASB 1); • use of deemed cost for operations subject to rate regulation (AASB 1); • clarification of disclosures (AASB 7); • clarification of statement of changes in equity (AASB 101); • significant events and transactions (AASB 134); and • fair value of award credits (AASB Interpretation 13). The amendments are not expected to have a significant impact on the financial statements.
AASB Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	AASB Interpretation 119 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The amendments are not expected to have a significant impact on the financial statements.
AASB 2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19	1 July 2010	
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payments Transactions	1 January 2010	These amendments confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group-share-based payment arrangement should be measured, that is, whether it is measured as an equity- or a cash-settled transaction. The amendments are not expected to have a significant impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

NOTE 25: AUDITOR'S REMUNERATION

Details of the amounts paid or payable to Nexia Court & Co for services provided during the year are set out below.

	GROUP	
	2012	2011
	$	$
Audit and Review of Financial Reports	33,399	33,754
Taxation Services	3,671	3,500
	37,070	37,254

The Board of Directors ensure that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

NOTE 26: PARENT ENTITY INFORMATION

As at, and throughout, the financial year ended 30 June 2012 the parent entity of the Group was Latrobe Magnesium Limited.

	2012	2011
	$	$
Result of parent entity		
Profit/(loss) for the period	(1,012,899)	(606,149)
Other comprehensive income	-	-
Total comprehensive income for the period	(1,012,899)	(606,149)
Financial position of the financial entity at year end		
Current assets	807,460	756,508
Non-current assets	5,786,996	5,769,436
Total assets	6,594,456	6,525,944
Current liabilities	111,028	63,603
Non-current liabilities	-	-
Total liabilities	111,028	63,603
Net Assets	6,483,428	6,462,341
Total equity of the parent entity comprising of		
Issued capital	26,472,507	25,438,521
Reserves	-	39,420
Accumulated Losses	(19,989,079)	(19,015,600)
Total equity	6,483,428	6,462,341

Parent entity contingencies
The parent entity has no significant contingent liabilities.

Parent entity capital commitments for the acquisition of property, plant or equipment.
The parent entity has not entered any contractual commitments for the acquisition of property, plant or equipment.

Parent entity guarantees in respect of the debts of the subsidiaries
The parent entity has not entered into deed of guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LATROBE MAGNESIUM LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Latrobe Magnesium Limited, which comprises the statement of financial position as at 30 June 2012, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the disclosing entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

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Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

(a) the financial report of Latrobe Magnesium Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the disclosing entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 17 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Latrobe Magnesium Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001.*

Nexia Court & Co
Chartered Accountants

Andrew Hoffmann
Partner

Sydney, 26 September 2012

ADDITIONAL INFORMATION

The following additional information is required by the Australian Securities Exchange Ltd in respect of listed public companies only.

SHAREHOLDING

a. Distribution of Shareholders as at 31 August 2012

Category (size of Holding)	Holders	Shares Held	Issued Capital (%)
1 – 1,000	184	87,351	0.01
1,001 – 5,000	302	987,784	0.13
5,001 – 10,000	238	2,039,837	0.28
10,001 – 100,000	702	32,038,897	4.32
100,001 – 9,999,999,999	593	706,152,608	95.26
	2,019	741,306,477	100.00

b. The number of shareholdings held in less than $500 unmarketable parcels is 1,093.

c. Substantial Shareholders

The names of the substantial shareholders listed in the holding Company's register as at 25 September 2012 are:

Shareholder No.	Name	Number of Ordinary Fully Paid Shares Held	Interest (%)
1	Famallon Pty Ltd <Famallon No2 Super Fund A/C>	78,117,435	10.54
33	Famallon Pty Ltd	3,538,961	0.48
		---------------	--------
	Total	81,656,396	11.02
2	Rimotran Pty Ltd <DP Super A/C>	51,879,310	7.00
49	David Oliver Paterson	2,577,922	0.35
		---------------	------
	Total	54,457,232	7.35

d. **Voting Rights**

The voting rights attached to each class of equity security are as follows:

Ordinary shares

(i) At meetings of members each member is entitled to vote in person or by proxy or attorney or, in the case of a member which is a body corporate, by representative duly authorized.

(ii) On a show of hands every member entitled to vote and be present in person or by proxy or attorney or representative duly authorized shall have one (1) vote.

(iii) On a poll every member is entitled to vote and be present in person or by proxy or attorney or representative duly authorized shall have one (1) vote for each fully paid share of which they are a holder.

ADDITIONAL INFORMATION

e. Twenty largest shareholders as at 25 September 2012.

	Shareholder	Number of Ordinary Fully Paid Shares Held	Holding (%)
1.	Famallon Pty Ltd <Famallon No2 Super Fund A/C>	78,117,435	10.54
2.	Rimotran Pty Ltd <DP Super A/C>	51,879,310	7.00
3.	Gibbs Plumbing Services Pty Ltd <Superannuation Fund A/C>	30,500,000	4.11
4.	JJ Wolfe Holdings Pty Limited <JJ Wolfe Super Fund A/C>	25,020,969	3.38
5.	HSBC Custody Nominees (Australia) Limited	16,143,000	2.18
6.	UBS Wealth Management Australia Nominees Pty Ltd	15,737,083	2.12
7.	Mr Bruce McFarlane+Mrs Jane Charlwood <Bruce McFarlane S/Fund A/C>	10,750,000	1.45
8.	Arco Four Investments Pty Ltd <The Ocramid Holdings Fam A/C>	9,050,200	1.22
9.	Datatech Financial Services Pty Limited	9,000,000	1.21
10.	Europacific Corp Pty Ltd <Robert Donohoe S/F A/C>	8,346,070	1.13
11.	M F Custodians Ltd	8,066,861	1.09
12.	Rylet Pty Ltd	7,753,083	1.05
13.	Mr John Daniel Powell	7,150,000	0.96
14.	Ottawa Resources Pty Limited <B McFarlane S/F A/C>	6,735,000	0.91
15.	Bigson Pty Ltd <Mike Gibson Super A/C>	6,624,972	0.89
16.	Lithgow Quarrying & Excavation Co Pty Ltd	6,468,278	0.87
17.	Mrs Maria Ganas	5,423,333	0.73
18.	Mrs Jillian Clare Wolfe	5,011,077	0.68
19.	Mr Rodney Foster + Mrs Debra Foster <Foster Family S/F A/C>	5,000,000	0.67
20.	Hornton Investments Pty Ltd <M J Duncan Account>	5,000,000	0.67
		317,776,671	42.86